

# Summary of Stakeholder Meeting Notes (Responses to Open Questions- Retirees)

*Note: During some stakeholder meetings, questions have been raised that couldn't be answered without additional research by the facilitators. The following is a compilation of questions from the session and responses based on additional research.*

## Open Questions to be Researched

### Retiree Stakeholder Session, January 4, 2008

1. Investigate whether the single/family contribution amounts paid by retirees are inequitable.  
**Response:** The Mayor, City Council, City and all stakeholders want to investigate every aspect of retiree health plan arrangements and costs so this issue is under active consideration. Since the amounts for the City's contributions to retirees are established in the Municipal Code, it would take a change in the Municipal Code (after considerable deliberation and agreements) to make changes. But all possible changes are on the table and balancing the contributions for retirees is certainly under consideration by planners. Another issue was raised in connection with the above question. It pertains to the perception that there is a one-time-forever point where retirees have to make a decision whether to cover themselves in retirement as a single or to elect family coverage. The perception seems to be that once this election is made, no changes are ever possible. In fact, to clarify, under circumstances explained by the Retirement Services Department at retirement, a retiree can add dependents at subsequent open enrollment times so long as he or she has established that the retiree has family members at the time of retirement. Additionally, retirees who sign up for family coverage at retirement can drop dependents and/or return to single status when a "qualifying event" occurs. Some examples of qualifying events are: death of a spouse, spouse's loss of other coverage, divorce, etc. Readers of this Q&A who have questions about how these provisions could apply in their own situations could contact Retirement Services for more details.
2. What is the GASB actuaries' recommended ARC (Annual Required Contribution) full funding payment for each of the next several years? How much is being paid currently?  
**Response:** According to the most recent actuarial report and materials presented to the City Council, the following table shows the actuary's recommended full funding ARC payment compared to the amounts being

paid by the City and employees currently, and the differences between the two amounts:

	<b><u>Current City and Employee Contributions</u></b>	<b><u>Actuary's ARC Recommendation</u></b>	<b><u>Differences</u></b>
Federated	\$26.1M	\$51.8M	\$25.7M
Police & Fire	<u>\$17.8M</u>	<u>\$49.5M</u>	<u>\$31.7M</u>
Totals	\$43.9M	\$101.3M	\$57.4M

The actuarial report will be re-calculated every two years and the numbers shown above are expected to change based on actual health care costs, investment earnings, assumptions used, contributions and benefit changes, cost control measures, etc. (source: August 7, 2007 presentation to the San Jose City Council)

3. Clarification is needed between the Retirement Boards' statement that the plans are 100% funded and the GASB liability calculations showing the plans are 5-10% funded.

**Response:** Hard as it is to imagine, likely both assertions are correct. The Retirement Boards' time horizon is the next ten or 15 years. According to the Boards' actuaries, the funds collected so far by the Retirement Boards are adequate to fully pay for retiree health costs for the next ten-15 years (thus the 100% funded statement). However, the Retirement Boards would agree that not enough funds are on hand or anticipated to adequately pay for the benefits promised to current and future retirees that will have to be paid beyond the next ten-15 years. The GASB statements require public entities to reveal their total liabilities for all future retiree costs, not just the ones that are anticipated in the next ten-15 years. Consequently, when the funds on hand are considered in relation to total future liabilities for all retirees and employees, then these same funds would only be considered 5-10% funded toward the longer-term obligations.

4. What are some of the specific solutions under consideration?

**Response:** It is still early in the Stakeholder Feedback process, but some of the possible solutions identified in the Stakeholder Sessions held so far are:

- Reduce medical needs (and thus costs) by improving participants' health (wellness, prevention, risk-reduction, etc.)
- Identify reasons costs are increasing rapidly and overcome the driving forces
- Consider tax-free accounts
- Study private industry's successes—they started long before government plans
- More effectively control health costs—this would result in less need for funds
- Consider tiered benefit plans
- Consider tiered contributions for retirees instead of just single/family
- Shift some portion of pension contributions to help fund retiree costs

- Investigate using Medicare Advantage and Medicare Supplement plans
  - Attract workers interested in longevity with the City
  - Consider issuing bonds to help pay obligations
  - Coordinate efforts of everyone involved in trying to overcome GASB challenges
- 5. What specific impact will these costs and solutions have on me personally?  
**Response:** It's too early to tell yet. How much impact GASB requirements will have on participants' individual situations is largely dependent on what solutions are chosen. If no changes were adopted and the status quo were continued, the cost would become unaffordable by employees, retirees and the City, so there's no point in using scare tactics to alarm anyone. Good solutions are being identified, and undoubtedly, some solutions will be adopted. At that point, the City and Retirement Boards are committed to fully explaining the impact the changes will have on individuals.
- 6. What are the possible negative consequences of not adequately funding the ARC amounts?  
**Response:** Most of the following list is not certain at this point since no one knows for sure what impact the GASB requirements will have. However, the following are the most commonly-listed negative consequences of not adequately funding the ARC:
  - Larger-than-necessary total cost outlays if the ARC is inadequately funded
  - Tarnished national reputation for the City of San Jose because of inadequate funding of the City's ARC relative to most other public entities' funding of their ARC obligations
  - Unsustainable cost for future generations
  - Possible qualified financial statements
  - Possible downgrade of bond rating (lowered credit rating)
    - Negative effect on City's borrowing capability
    - Negative effect on City's borrowing costs
    - (both of the effects listed above would reduce the funds available for wages and benefits)
  - Possible taxpayer push-back against higher-than-necessary costs that could result in diminished benefits for retirees and active employees
  - Possible reduction in City's services to citizens and residents, service cutbacks, deferred maintenance, etc.
  - Possible staff reductions
- 7. Are there models of success in other cities?  
**Response:** There are models of actions in other public entities, but virtually none of the actions being taken by other public entities have been implemented long enough to show demonstrable results yet. This is one of the reasons for the survey and research on other employers in California

and across the US. The results of the survey research will help provide insight into other employers' actions and their actuaries' estimates of how much impact their actions could have on the entities' ARC and liabilities.

8. In what ways could the retiree plan be made better than today's plan?

**Response:** Given the tough GASB circumstances faced by employees, the City and retirees, it's hard to imagine how the retiree plan could/should be made better. However, one example of how the plan could be improved is by adding prevention/wellness/risk-reduction benefits to the plan.

Investing today in reducing the incidence and severity of diseases that cause tomorrow's cost will help control costs by avoiding some of the illnesses that will occur in the absence of these types of programs.

Consequently, prevention and risk-reduction programs are under active consideration (along with many other possible solutions).

9. Why are health costs increasing two-to three-times faster than inflation and pay?

**Response:** The causes of increasing health costs are complex and varied. The top dozen generally agreed-to causes of US health care cost increases are:

- Aging of the US population
- "Baby Boomers" are approaching retirement
- Health-harming lifestyles
- Epidemic of obesity, diabetes and depression
- New technology
- Declining medical marketplace competition
- Medical mistakes
- Insulated consumers
- Violence in America
- Healthcare anti-economics
- Illegal immigration, other uninsured patients
- Unwillingness (so far) to pass health system reforms

10. What are the real (fundamental) issues?

**Response:** The real issue is not compliance with GASB requirements. The real issues employees, the City and retirees need to consider are:

- Whether (and how) benefit promises should be funded as employees earn them, and,
- What can be done to pay for the inadequate funding of past benefit promises

11. Did the actuaries take integration with Medicare into consideration when computing expected liabilities? (Mercury News Letter to the Editor)

**Response:** Yes, one of the more important actuarial assumptions in each of the three actuarial reports is how much future retiree costs will be offset (reduced) by Medicare's benefits.

12. What would be the relative impacts of pay-as-you-go vs. full funding of the ARC?

**Response:** According to the actuarial reports prepared for the Federated City Employees' Retirement System and the Police and Fire Department

Retirement Plan, the future (unfunded) liability for retiree healthcare costs is \$1.65 billion if the current partial funding (pay-as-you-go) method is continued. In contrast, the future retiree cost liability would be \$1.14 billion if the full pre-funding method is adopted. This \$510,000,000 difference represents the positive effect of not postponing payments toward the retiree health cost obligation (sources: Actuarial Reports and Retiree Healthcare Memorandum presented to the Mayor and City Council on July 24, 2007).